

K-12 EDUCATION

Despite the fiscal challenge facing California, the K-12 education budget preserves core instructional programs and key reforms and adheres to the Proposition 98 funding requirements. Thus, California's public schools continue to receive the resources to provide over 6.2 million pupils a high quality education and the tools to meet California's world-class standards. The significant drop in General Fund revenues resulting from the delayed economic recovery requires that funding be reduced accordingly, even in the highest priority programs. The funding

formula for Proposition 98 recognizes this by providing that the guarantee reflect changes in General Fund revenue growth.

The Governor's Budget fully funds statutory revenue limit growth for school districts, county offices of education, and special education. As indicated in Figure K12-1, approximately \$53.0 billion will be devoted to California's 983 school districts and 58 county offices of education, resulting in estimated total per-pupil expenditures from all sources of \$9,072 in fiscal year 2002-03 and \$8,899 in fiscal year 2003-04. Figure K12-2 displays the various sources of revenues for schools.

FIGURE K12-1

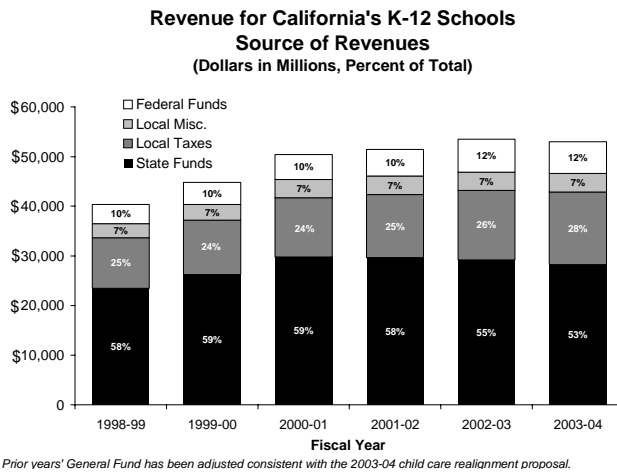
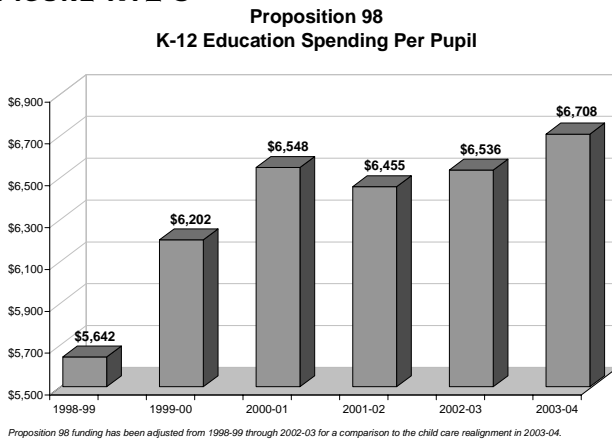
**Total Revenue for K-12 Education
2003-04 Governor's Budget
(Dollars in Millions)**

Source of Funds 1/	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	Change	Percent
State General Fund ^{2/}	\$17,426	\$19,344	\$19,857	\$22,697	\$25,444	\$28,818	\$28,694	\$28,286	\$27,390	-\$896	-3.2%
Lottery Fund	692	611	675	728	745	827	827	800	800	\$0	0.0%
Other State Funds	53	59	89	74	65	141	146	113	80	-\$34	-29.7%
Federal Funds	2,825	2,991	3,473	3,859	4,439	5,005	5,365	6,599	6,397	-\$202	-3.1%
Local Property Taxes	8,653	8,585	9,138	9,545	10,201	11,094	11,873	13,140	13,775	\$635	4.8%
Local Debt Service	390	426	498	612	707	828	828	828	828	\$0	0.0%
Local Miscellaneous	2,103	2,195	2,595	2,843	3,219	3,716	3,716	3,716	3,716	\$0	0.0%
Total Revenue	\$32,142	\$34,211	\$36,325	\$40,358	\$44,818	\$50,428	\$51,448	\$53,481	\$52,985	-\$497	-0.9%

^{1/} 2001-02, 2002-03 and 2003-04 are estimated.

^{2/} State General Fund is adjusted to reflect local expenditures for the year in which the funds were received. Prior years have been adjusted consistent with the 2003-04 child care realignment proposal.



FIGURE K12-2**FIGURE K12-3**

Total 2003-04 Proposition 98 support for K-12 education will increase 1.6 percent over the 2002 Budget Act level as revised by the Administration's December 2002 mid-year proposals. This level of funding supports K-12 Proposition 98 per-pupil expenditures of \$6,708 in 2003-04, up from \$5,642 in 1998-99 and \$6,536 in 2002-03 (see Figure K12-3). This Administration has increased K-12 per-pupil appropriations for education by 18.9 percent since taking office. Proposed 2003-04 Proposition 98

spending is \$9.6 billion more than it would have been had funding been held to the minimum required level since 1998-99.

Funding reported by schools from their general funds and the various categories of expenditure, along with respective shares of total funding for each category, are displayed in Figure K12-4. All costs shown are those reported to the State by schools using the definitions specified in the California School Accounting Manual.

Enrollment Growth—Attendance growth in public schools continues to be relatively low, primarily due to steady declines in birth rates beginning in the early 1990s. For the current year, total K-12 Average Daily Attendance (ADA) is estimated to be 5,895,275. This reflects an increase of 86,192 ADA, or 1.48 percent, over the 2001-02 fiscal year and is 14,699 higher than the 2002-03 estimate at the May Revision. For the budget year, total K-12 ADA is estimated to be 5,954,154. This reflects ADA growth of 58,879, or 1.00 percent, over the current year.

Proposition 98 Guarantee

Total 2001-02 Proposition 98 funding is \$43.3 billion, of which the General Fund share is \$29.7 billion. This amount is \$6.2 billion above the Proposition 98 Test 3 minimum funding level.

Total 2002-03 Proposition 98 funding is \$43.9 billion, of which the General Fund share is \$28.9 billion, which meets the

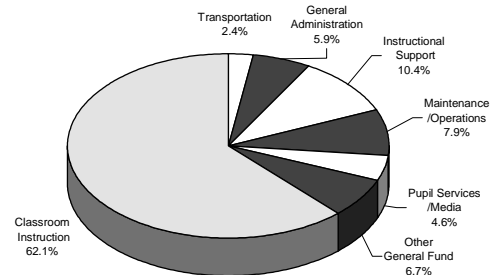


minimum funding requirement, and fully funds the required maintenance factor payment.

Total 2003-04 Proposition 98 funding is proposed at \$44.1 billion, an increase of \$182 million over the revised 2002-03 funding level. The General Fund makes up approximately 64.0 percent, or \$28.2 billion, of total proposed Proposition 98 funding (see Figure K12-5). This provides funding of \$104 million over the minimum guarantee under Test 3 as recalculated to reflect the Child Care realignment proposal. The primary factor responsible for reducing the guarantee from previous estimates is the reduction in General Fund revenue and related economic indicators.

FIGURE K12-4

Where Schools Spend Their Money



Classroom Instruction includes: general education, special education, and special projects.

General Administration includes: superintendent and board, district administration, other administration, centralized EDP, and maintenance and operations for administration.

Instructional Support includes: instructional administration, school site administration, and special projects administration.

Maintenance and Operations includes: utilities, janitorial and groundskeeping staff, and routine repair and maintenance.

Pupil Services includes: counselors, school psychologists, nurses, child welfare, and attendance staff. Media includes libraries and media centers.

Other General Fund includes: spending for tuition, facilities, contracts with other agencies, and transfers to and from other district funds.

(Based on 2000-01 data reported by schools.)

FIGURE K12-5

Proposition 98
(Dollars in Thousands)

Proposition 98 Appropriation	1999-00	2000-01	2001-02	2002-03	2003-04
State General Fund	\$28,099,392	\$30,186,790	\$29,682,180	\$28,897,639	\$28,225,485
Local Revenue	11,683,351	12,708,185	13,570,034	15,013,304	15,867,659
Total	\$39,782,743	\$42,894,975	\$43,252,214	\$43,910,943	\$44,093,144
Total State and Local Distribution					
Department of Education	\$35,370,727	\$38,039,981	\$38,362,844	\$39,296,676	\$39,939,313
California Community Colleges	3,996,900	4,393,836	4,428,856	4,505,166	4,063,489
Department of Developmental Services	13,000	14,087	10,437	11,624	11,498
Department of Mental Health	18,400	18,400	18,400	17,851	3,400
Department of Youth Authority	39,584	40,733	41,482	37,684	37,358
State Special Schools	30,527	33,964	36,009	37,953	38,086
Indian Education Centers ^{2/}	3,605	3,974	4,186	3,989	0
Loan Repayment	310,000	350,000	350,000	0	0
Total	\$39,782,743	\$42,894,975	\$43,252,214	\$43,910,943	\$44,093,144
Proposition 98 Appropriations					
Percentage Share of General Fund	39.8%	39.2%	46.6%	44.4%	42.7%
SAL ^{1/} Revenues and Transfers					

^{1/} State Appropriations Limit, Article XIII B.

^{2/} Included in Categorical Block Grant in 2003-04.



Reductions were made in both the current year and the budget year, reflecting reductions in the minimum funding requirement under the Constitution. The end result is a total current year reduction of \$2.7 billion. This General Fund reduction is achieved through a combination of fund shifts, natural savings, and reductions. Most of the reductions continue into the budget year; policy decisions such as not providing a COLA, along with some additional program reductions, hold the year-over-year growth in Proposition 98 to \$183 million. In addition, the Governor's Budget assumes suspension of the requirement in Chapter 1167, Statutes of 2002, to fully repay the existing maintenance factor obligation—estimated at \$3.5 billion—in one year rather than over time pursuant to the Constitution.

2002-03 Budget Adjustments

Growth and Cost Estimates

The 2002-03 funding level reflects \$28.5 million for enrollment growth related adjustments to district and county office apportionments. Additionally, costs for unemployment insurance and PERS are reduced by a net of \$10.8 million based on updated information on 2001-02 costs. Due to a decline in local property tax, General Fund costs for apportionments are expected to increase by \$373 million.

December 2002 Mid-Year Spending Reduction Proposals

Across-the-Board Reductions—An across-the-board reduction of \$980.8 million in K-12 programs. This initial 3.66 percent reduction to the General Fund portion of all Proposition 98 programs, including apportionments, is designed to maximize district flexibility in managing these reductions.

Fund Shift for Regional Occupational Centers and Programs (ROC/Ps)—\$356.8 million of savings identified in appropriations made in 2001-02 and prior years will be or has been reverted and used to support the ROC/P Program.

Stage 3 Child Care—\$98.8 million in savings is proposed by eliminating Stage 3 child care services effective April 1, 2003.

Property Tax Offset for ROC/Ps—A reduction of \$11.4 million in Proposition 98 General Fund for ROC/Ps will be achieved by using excess property tax revenue from County Offices of Education to offset General Fund program costs. Because these funds are in excess of ROC/P apportionments, this reduction will not affect ROC/P revenue limits or ADA caps, thereby preserving core services.

Aligning Funding with Timing of Expenditures—\$15 million in one-time savings will be achieved by paying for awards made late in the year or in following years in the Principal Training Program, the College Preparation Partnership Program, and the Academic Improvement and Achievement Act program, with funds appropriated in 2003-04.



Audit Recoveries—\$13.5 million in audit findings has been reduced from funding for Adult Education pursuant to audits of inappropriate concurrent enrollment in the 1990s.

Deferring New Cohorts—\$3.6 million in savings is achieved by delaying the addition of new schools to the Healthy Start and California School Information Services programs.

Capturing Savings—\$30 million of savings has been identified due to lower-than-expected participation or audit recoveries in the following programs: Adults in Correctional Facilities, CalWORKS Stage 3 child care, Community Day Schools, High Risk Youth Education, and Public Safety.

Grants for Supplemental Support for Workforce Investment Act (WIA) Youth Services—\$7.0 million reduction in non-Proposition 98 General Fund to eliminate State funding for WIA youth services coordination and outreach. Through WIA, the State presently receives nearly \$175 million in federal funds specifically for youth development activities, which are still available for those purposes.

The December 2002 mid-year proposals also allow districts greater flexibility in using reserve funds and in shifting funding among certain categorical programs.

Additional Current Year Reductions

Reductions in Selected Programs—In order to bring spending in line with the revised Proposition 98 spending requirement, \$481.7 million is reduced by apply-

ing an additional 7.46 percent reduction to most Proposition 98 categorical programs. Programs not reduced include Supplemental Instruction (summer school), Special Education, Preschool, and Nutrition (meals).

Restore a Portion of Special Education December 2002 Reduction—\$78.3 million in one-time federal funds has been identified that will be used for 2002-03 child care costs, thus generating General Fund savings. These savings will be used to reduce the \$98.3 million reduction in special education proposed as part of the mid-year reduction package. The remainder of this current year reduction will be funded in 2003-04 so that no overall reduction in funding for 2002-03 special education costs will occur and the receipt of federal funds will be maximized.

Fund Shift for Adult Education—\$81.1 million of prior year savings identified since the December mid-year reduction package will be used to support adult education.

Aligning Funding with Timing of Expenditures to Capturing Savings—\$12.3 million in one-time savings is realized by paying for awards made late in the year with funds appropriated in 2003-04. Savings of \$22.6 million in the High Priority Schools Program is achieved by not starting a new cohort and applying federal Comprehensive School Reform funds. Savings of \$3.9 million also has been identified in after school programs.

Basic Aid—Because the 2.15 percent reduction to school district revenue limits proposed as part of the Mid-Year Spending Reduction Proposals would otherwise have no impact on Basic Aid districts because



they receive little or no State funding toward their revenue limit, the Governor's Budget proposes to reduce the revenue limit add-on to Basic Aid districts by 2.15 percent to save \$15.3 million in the current year. This proposal is intended to more equitably distribute the impact of the current year reductions.

2003-04 Budget Adjustments

Growth and Other Standard Adjustments

Apportionment Growth—The Budget fully funds statutory enrollment growth for school districts (\$299.2 million), county offices of education apportionments (\$22.3 million), and special education (\$37.2 million). This reflects the Administration's goal of preserving core K-12 services even in the midst of the current budget shortfall.

Public Employees Retirement System—The Budget fully funds the estimated \$381.7 million increase in the Public Employees Retirement System (PERS) school employer contribution rate. Failure to fund this increase would effectively reduce existing budgets for school districts and county offices of education.

Unemployment Insurance—The Governor's Budget provides full funding for the estimated \$35.2 million increase in local education agency Unemployment Insurance (UI) reimbursements. This increase is attributable to a doubling of the UI rate.

Equalization—The Budget provides funding of \$250 million for school district revenue limit equalization. Of this amount, \$203 million is pursuant to the appropriation in Chapter 1167, Statutes of 2002; the additional increase of \$47 million represents partial funding of the intended \$203 million set aside for this purpose at the end of the 2001-02 legislative session.

Restoration of Deferred Appropriations—A net increase of \$315 million is needed to restore appropriations deferred in 2002-03 to their previous level and to reflect the net change in the level of deferred appropriations between 2002-03 and 2003-04.

Set-Aside for Fiscally Troubled Districts—The Budget sets aside \$102 million in non-Proposition 98 General Fund in anticipation of emergency loans that may need to be provided to fiscally troubled districts pursuant to future legislation. It is believed that the West Fresno Elementary School District may require a loan of up to \$2 million. Because there are additional districts with reported problems, the Administration believes it is prudent to set aside an additional \$100 million.

Special Education—The Governor's Budget provides full restoration to the 2003-04 budget base of the \$22 million balance of the current year reduction to special education in the current year, as well as a one-time augmentation of \$22 million for payment of deferred 2002-03 costs. The Budget also provides \$8.99 million in one-time funds to fully fund the 2001-02 deficit in Special Education due to current year ADA increases. This restoration of funding is in addition to the \$37.2 million in statutory growth.



State Special Schools—The Governor's Budget provides an additional \$5.3 million for increased health benefits for the California Schools for the Deaf, California School for the Blind, and the three Diagnostic Centers throughout the state. The only reduction to this budget is \$719,000 for 19 vacant positions. The positions that were eliminated were vacant in many cases for many months, and their elimination jeopardizes neither direct instructional services, 24-hour care, nor health and safety services to the students at the State Special Schools.

Pupil Testing—The Governor's Budget provides \$120.2 million, including federal funds, for various statewide exams. These assessments provide valuable information to parents, teachers, schools, and the State regarding pupil performance, and are the foundation of the State's accountability system. As such, the funding for these exams is kept separate from the proposed categorical block grant. The assessments funded include:

- ◆ **Standardized Testing and Reporting (STAR) Exam**—\$66.1 million is provided for the STAR exam. This exam, which serves as the primary indicator for the Academic Performance Index, measures pupil performance on various State-adopted content standards, coupled with a national norm-referenced exam.
- ◆ **High School Exit Exam (HSEE)**—\$21.2 million is provided for the HSEE. Under current law, commencing with the 2003-04 school year, all pupils must pass the HSEE in order to receive a diploma. Chapter 716, Statutes of 2001, allows the State Board of Educa-

tion to delay this requirement if it is found that pupils have had an insufficient opportunity to learn.

- ◆ **California English Language Development (ELD) Exam**—\$18.5 million is provided for the ELD exam. This exam is required for pupils whose primary language is not English in order to identify English language learners. This identification allows schools to better allocate resources to assist these pupils. In addition, schools are required to annually assess English language learners to ensure that pupils who have attained proficiency in English do not continue to receive instruction using curriculum for English language learners.

Accountability—The State has committed significant resources during this Administration to improve the academic performance of low-performing schools. The need to continue this focus has not diminished. Therefore, the Governor's Budget continues to fund these programs separately from the proposed categorical block grant.

- ◆ **Immediate Intervention/Underperforming Schools Program (II/USP)**—The Budget provides \$127.6 million, including federal funds, for the second year of implementation funding for schools in the third cohort, as well as a third year of implementation funding for schools in the second cohort that made significant progress but did not reach their growth targets. Additionally, the Budget includes \$32.9 million, including federal funds, for sanctions for those schools that



failed to make significant progress during the two years they were provided with implementation funding.

- ◆ **High Priority Schools Grant Program**—The Budget includes \$193.8 million, including federal funds, for the second year of funding for this program, which provides up to \$400 per pupil to the lowest-performing schools in the state to improve academic performance.

Standards-Based Training Programs—The State established two significant and rigorous teacher and administrator training programs in 2001, designed to teach existing school staff new curriculum and professional standards—the Mathematics and Reading Professional Development Program and the Principal Training Program. Funding for both of these programs is maintained outside of the categorical block grant, as the purpose of these programs is to provide specific training to teachers and administrators during a limited time period.

As originally authorized, the Mathematics and Reading Professional Development Program would have ensured that all mathematics and reading teachers received standards-aligned training by the end of 2004-05, while the Principal Training Program would have provided training to 15,000 principals and vice-principals by the end of 2003-04. While the Administration remains committed to both of these programs, budgetary constraints necessitate the extension of the timeframes for the completion of these training programs. It is anticipated that the Principal Training Program will be completed in 2004-05. The completion date for the Mathematics and

Reading Professional Development Program is dependent on the funding levels in future years.

- ◆ **Mathematics and Reading Professional Development Program**—The Governor's Budget provides \$27.9 million to provide standards-aligned training to reading and mathematics instructors.
- ◆ **Principal Training Program**—The Governor's Budget provides \$26.2 million for the third year of this program. The goal of this program is to provide principals and vice-principals with training in instructional standards and effective school management techniques.

2003-04 Reductions

Additional Reductions to Selected Categorical Programs—The Governor's Budget proposes \$122.2 million in additional reductions to categorical programs by applying the 3.66 percent reduction used in the December 2002 Mid-Year Spending Reduction Proposals to funding that was deferred to the 2003-04 fiscal year for payment of 2002-03 costs (\$51.3 million) and by further reducing selected categorical programs by 1.28 percent (\$70.9 million). Programs not subject to this reduction include Supplemental Instruction, Special Education, Preschool, Nutrition, and K-3 Class Size Reduction.

Block Grant of Categorical Programs—To provide districts with the ability to manage within the proposed funding levels, the Administration proposes to consolidate remaining funding for 64 programs into a



\$5.1 billion block grant for the general purposes of professional development, instructional materials and technology, specialized and targeted instructional programs, school safety, and student services. Programs excluded from this block grant include those not subject to the additional 1.28 percent reduction, after school programs (due to Proposition 49 requirements), programs providing statewide services through one county office—California School Information Services (CSIS) and Fiscal Crisis and Management Assistance Team (FCMAT), two limited-term, focused staff development programs—Math and Reading Professional Development and Principal Training, and the year-round schools program, which is proposed to be phased out.

Cost of Living Adjustments—\$886 million is saved by not funding cost-of-living adjustments estimated at 1.96 percent for Proposition 98 programs, including apportionments.

Deferral of Increased State Mandate Reimbursement Liability—\$870 million is saved by not funding the cost of various new mandates identified by the Commission on State Mandates and deficiencies for mandated programs that have been reported by the State Controller. This includes \$259.9 million for the School Bus Safety II mandate that was recently shown by a Bureau of State Audits review to include large amounts of non-reimbursable costs. Many of the other underlying claims have not been audited, so the State's true liability for them is not yet known.

Categorical Growth—\$106 million for costs of enrollment growth driven adjustments to categorical programs are avoided, consistent with the decision to reduce these programs.

Elimination of Basic Aid Add-On to Revenue Limits—\$17.8 million in savings is achieved by eliminating funding received by Basic Aid districts that is currently an add-on to their revenue limit. Basic Aid districts' property values are high enough to produce enough local property tax to fully fund their basic general purpose allocation of school funding called a revenue limit. Property taxes that are allocated above that amount are deemed "excess taxes" and permit these districts to fund enriched K-12 programs. The Budget proposes that the required minimum funding for Basic Aid districts (\$120 per unit of ADA) be met through the receipt of categorical funding.

Reallocation of Excess Tax—The Governor's Budget proposes to redirect \$126.2 million of the \$160 million estimated amount of local property tax allocated to Basic Aid districts in excess of their revenue limits, to instead, meet school district and county office of education revenue limits and special education funding targets.

Mitigation of the PERS Offset to Revenue Limits—The Governor's Budget proposes elimination of the scheduled \$35 million appropriated pursuant to Chapter 2, Third Extraordinary Session, Statutes of 2002, that was intended to mitigate the PERS offset to school district and county office of education revenue limits.



Phase-Out of Year Round School

Grants—An \$18.8 million reduction is reflected as the first installment of a four-year phase out of this program. Due to the availability of increased school construction bond funds and changes in the conditions associated with these grants, the State no longer receives any financial benefit from this program.

High Priority School Grants—\$16.8 million is reduced to reflect the intent that schools in the first cohort of Immediate Intervention/Underperforming Schools Program only receive one year of High Priority Schools grants.

Charter School Facilities Grants—

A \$6.6 million reduction reflects the reduced need for leased facilities due to the availability of the new school bond funds as well as facilities provided by districts.

Participation of Youth in ROC/Ps— The Budget proposes a \$12.0 million reduction in Proposition 98 General Fund by limiting program enrollment to students who are either in grade 11 or higher or have reached 16 years of age. The Administration is concerned that some districts may be encouraging younger students to enter ROC/Ps as a means of receiving additional funding for concurrent enrollment, rather than to serve the best interests of that student. Furthermore, hundreds of high schools throughout the state have Partnership Academies, which provide alternative education and career-technical skills to at-risk students as young as grade 9.

School-to-Career—The Budget proposes a \$2.0 million reduction in Proposition 98 General Fund to eliminate State funding to the Office of the Secretary for Education for

School-to-Career grants. These grants continued a federal program that provided local agencies seed money to integrate school-based and work-based learning, ultimately to be supported through local means. Local agencies with successful programs have had adequate time to achieve self-sufficiency; thus, continued State support appears to contradict federal intent.

State Department of Education—In addition to the administrative savings associated with the Child Care realignment, \$4.6 million and 18.1 personnel years are reduced in 2003-04 due to the Mid-Year Spending Reduction Proposals, and \$6.7 million and 92.2 personnel years are reduced due to the elimination of programs included in the categorical block grant.

K-12 School Facilities

Proposition 47—Chapter 33, Statutes of 2002 (AB 16), the Kindergarten-University Public Education Facilities Bond Act of 2002, authorized the placement of a school facilities general obligation bond measure for \$13.05 billion on the November 2002 ballot (Proposition 47), which the voters approved. Proposition 47 provides \$11.4 billion for K-12 education facilities through the State School Facilities Program and \$1.65 billion for higher education facilities. The K-12 funding includes \$6.3 billion for new construction projects, \$3.3 billion for modernization projects, \$1.7 billion for critically overcrowded schools, and \$50 million for joint use projects. Within the approved amounts, Proposition 47 sets aside \$2.9 billion for new construction projects and \$1.9 billion



for modernization projects for which school districts had submitted applications to the State Allocations Board on or before February 1, 2002. In accordance with the voters' will, at its December 18, 2002, meeting, the State Allocation Board apportioned \$3.35 billion for new construction projects and \$2.07 billion for modernization projects.

The Budget includes \$278,000 from Proposition 47 funds and 4.8 personnel years in the current year and \$471,000 Proposition 47 funds and 6.7 personnel years in the budget year for increased workload for the Office of Public School Construction. In addition, the Governor's Budget includes \$94,000 in reimbursements and 1.9 personnel years in the current year and \$295,000 Proposition 47 funds and reimbursements and 3.8 personnel years in the budget year for increased workload for the School Facilities Planning Division.

Charter School Facilities—Chapter 935, Statutes of 2002 (AB 14) established the Charter School Facilities Program. Funding for the new program was contained in Proposition 47, which set aside up to \$100 million of the new construction general obligation bond funds for charter schools. Applications for funding under this program must be processed in accordance with provisions of the State School Facilities Program. In addition, the California School Finance Authority must review and determine that a charter school applicant is "financially sound" as set forth in provisions of AB 14, as a condition of receiving funds under the Charter School Facilities Program.

Child Care

Child Care Realignment—In the 2002-03 Governor's Budget, the Administration proposed child care reforms to provide efficient, equitable child care services to California's neediest families and to stabilize the unsustainable growth in CalWORKs Stage 3 child care. The proposal was subsequently withdrawn to allow more time for input, as requested by the Legislature and stakeholders. However, since the enactment of the 2002 Budget Act, the State's fiscal condition has worsened while the caseload for Stage 3 child care services continues to grow. Moreover, the current child care system is complex and difficult to manage due to the multiple state and local agencies involved in the system. Some of the problems with the current system include:

- ◆ A three-stage CalWORKs system creates needless seams between Stage 1 and Stage 2.
- ◆ A family who exhausts its eligibility for care in Stage 2 and has not applied on waiting lists for other subsidized child care programs could be exposed to an interruption in services received.
- ◆ All working poor families are not treated in an equitable manner.
- ◆ Programs administered through direct contract centers are administratively complex and burdensome, resulting in millions of unspent dollars annually, thus depriving other families of services.
- ◆ Access to high quality child care is inequitable across the state as centers are not evenly distributed between neighborhoods and regions.



- ◆ Recent comments from Alternative Payment providers argue that the system is fraught with inefficiencies, abuse, and fraud.

In view of these concerns, the Administration proposes that all child care and development programs, with the exception of State Preschool and the After School Education and Safety Programs, be transferred to counties. This proposal, by giving counties the responsibility to administer child care services in conjunction with other social service programs for the same families, would facilitate greater coordination for needy families, enhance accountability and fraud prevention, reduce bureaucracy and administrative costs, and facilitate integration of local priorities and funding sources (including Proposition 10 funding) to fill gaps in meeting child care needs more equitably than can be done while administered as a disjointed State program.

The Administration proposes the following adjustments in 2002-03:

- ◆ Elimination of CalWORKS Stage 3 child care service effective April 1, 2003, thereby reducing child care costs by \$108.8 million. Of this amount, \$10 million is attributable to reduced estimates of current year caseload. Additionally, the Administration proposes to replace \$78.3 million Proposition 98 General Fund with one-time federal funds.
- ◆ A reduction of \$3.9 million for the After School Education and Safety Programs (formerly called the Before and After School Learning and Safe Neighborhoods Partnership Program prior to passage of Proposition 49), in addition to across-the-board reductions for all Proposition 98 programs, to reflect savings from delayed implementation of new grants.
- ◆ A transfer of \$28 million from the Child Care Facilities Revolving Fund to the Proposition 98 Reversion Account to be utilized to replace other current year Proposition 98 funding in order to reduce the guarantee to the minimum level required by law.
- ◆ Reversion of \$96.7 million in one-time unexpended prior year Proposition 98 appropriation balances are proposed for similar purposes.

Realignment of child care in 2003-04 results in the following funding shifts and adjustments:

- ◆ \$967.6 million base Proposition 98 General Fund expenditures are reduced from the K-12 budget and subsequently shifted along with even greater resources to counties from a new revenue source pending realignment legislation (see Preserving Critical Programs section). Realignment applies to all child care programs except State Preschool and the After School Education and Safety Program because these programs are primarily educational and not focused on meeting parents needs to maintain employment. This amount includes the \$191.6 million base for Stage 3 child care, although the program is proposed for elimination at the state level on April 1.
- ◆ \$863 million base federal Child Care and Development Fund (CCDF) local assistance (including transfers of



Temporary Assistance for Needy Families [TANF] for Stage 2 child care) are reflected in the K-12 budget as unallocated local assistance funding pending realignment legislation.

- ◆ A total of \$9.0 million and 77.8 personnel years (\$2.7 million General Fund and \$6.3 million CCDF) in state operations for Child Care and Development programs are reduced from the State Department of Education (SDE) budget in anticipation of local administration pursuant to realignment legislation. Sufficient staffing and operating expense remain to address State Preschool and After School Education and Safety Program workloads. Additionally, the Budget retains staff sufficient for quality and provider contract transition activities, payable from federal funds in the budget year.

SDE's child care budget for the 2003-04 fiscal year retains \$421.5 million for State Preschool (\$314.2 million) and the After School Education and Safety Program (\$107.3 million). In addition, SDE's child care budget includes \$11 million for Preschool quality enhancements (\$5 million) and adequate reserves for other contract close-outs (\$6 million) from one-time funds.

In summary, almost \$1.9 billion in total revenues are made available to counties for child care, including an estimated \$519 million in Child Care and Development Fund federal funds, over \$1 billion from new revenues, plus \$344 million from the TANF Block Grant normally earmarked for Stage 2 child care to counties as part of CalWORKs. These funds will meet the child

care needs of cash aid recipient families, former CalWORKs recipient families, and other working poor families, with greater local flexibility for local determination of the families most in need of child care subsidies.

Scholarshare Investment Board

The Administration proposes legislation to authorize delayed disbursement of funding for Governor's Scholars Awards and Governor's Math and Science Scholars Awards until the recipients complete the 11th grade.

Additionally, the State Board of Education adopted a policy to disallow the use of mathematics exams more than one grade level below the grade of the pupil being tested to qualify for these awards. For instance, according to the State's standards, a 10th grade pupil should be taking Algebra II. Under this new policy, a 10th grade pupil could qualify for these awards by taking the Geometry or Algebra II exam but not the Algebra I exam. These revisions will generate \$78 million in program savings compared to the amount required by current statute to be appropriated for these programs.

Since high school students may not access these awards until they enroll in college, delaying disbursement will have no adverse impact on the recipients. However, the changes can legally be made only prospectively.



California State Library

The Governor's Budget includes the following General Fund savings adjustments for the California State Library (CSL):

- ◆ **Public Library Foundation—** \$15.8 million in 2002-03 and 2003-04, which reflects a 50 percent reduction from the 2002 Budget Act, for local library operational costs and materials.
- ◆ **California Civil Liberties Public Education—** \$500,000 in 2002-03 (which reflects a 50 percent reduction from the 2002 Budget Act) and \$1.0 million in 2003-04 to phase out the program that has received the intended three years of funding to develop instructional materials for inclusion within standard curriculum.
- ◆ **State Administration—** \$1.0 million, offset by a \$1.2 million increase in federal funds during 2002-03, and \$1.5 million offset by a \$1.7 million increase in federal funds during 2003-04, to support the federal government's share of CSL administrative costs.

Additional 2003-04 Budget Proposals

- ◆ **Literacy Program Consolidation—** To streamline administration and provide local flexibility for literacy services, the Administration proposes legislation to consolidate the existing California Literacy Campaign, Families for Literacy Program, and English Language and Literacy Intensive pro-

gram. The Governor's Budget provides \$5.3 million General Fund for this purpose.

- ◆ **Transaction Based Reimbursements—** The Administration proposes legislation to authorize local libraries to charge user fees to cover administrative costs associated with providing direct or inter-library loans of materials. The related fees would be approximately \$1 for direct loans and \$5 for inter-library loans. General Fund savings of \$12.1 million would result by eliminating State support of these loans.
- ◆ **User Fees for State Administration—** The Administration proposes legislation to allow the CSL to establish user fees (via a State Library Card, as an example) to cover a portion of its administrative expenses. General Fund savings of \$3 million would result.
- ◆ **Library of California—** The Governor's Budget proposes eliminating support for this program, as it provides little direct service and is primarily administrative in nature at this time.
- ◆ **State Operations—** The Governor's Budget proposes a \$1.3 million General Fund State administrative cost savings to effect the elimination of local assistance programs.
- ◆ **Library Construction and Renovation Bond Fund Audits—** The Governor's Budget proposes an appropriation of \$398,000 from bond funds for state operations to ensure that the authorized funds are used appropriately.

